

**Healthy Palm Beaches, Inc.**  
**(A Component Unit of the Health Care District  
of Palm Beach County, Florida)**

Statutory Financial Statements  
With Independent Auditor's Report Thereon  
December 31, 2015 and 2014

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**Independent Auditor's Report**

To the Board of Directors  
Healthy Palm Beaches, Inc.  
Palm Springs, Florida

**Report on the Financial Statements**

We have audited the accompanying statutory financial statements of Healthy Palm Beaches, Inc. (HPB), which comprise the statutory statements of admitted assets, liabilities, and capital and surplus as of December 31, 2015, and the related statutory statements of revenues, expenses and changes in capital and surplus, and cash flows for the year then ended, and the related notes to the statutory financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting practices prescribed or permitted by the Office of Insurance Regulation of the State of Florida; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these statutory financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 to the statutory financial statements, HPB prepared these financial statements using accounting practices prescribed or permitted by the Office of Insurance Regulation of the State of Florida, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these statutory accounting practices and accounting principles generally accepted in the United States of America are described in Note 1 to the statutory financial statements.

**Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Healthy Palm Beaches, Inc. as of December 31, 2015, or the results of its operations or its cash flows thereof for the year then ended.

**Opinion on Regulatory Basis of Accounting**

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of Healthy Palm Beaches, Inc. as of December 31, 2015, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 1.

**Emphasis of Matters**

As discussed in Note 1, the statutory financial statements of Healthy Palm Beaches, Inc. are intended to present the admitted assets, liabilities, and capital and surplus, and the related statutory revenues and expenses and changes in capital and surplus, and cash flows of Healthy Palm Beaches, Inc. They do not purport to, and do not, present fairly the financial position of the Health Care District of Palm Beach County, Florida as of December 31, 2015 and 2014, and the changes in its financial position and its cash flows, where applicable, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the statutory financial statements, as of December 31, 2015 Healthy Palm Beaches, Inc. ceased providing health insurance coverage under its health plan.

**Other Matter**

The statutory financial statements of Healthy Palm Beaches, Inc. as of and for the year ended December 31, 2014 were audited by other auditors, whose report dated March 27, 2015, expressed an unmodified opinion on those financial statements prepared on the regulatory basis of accounting.

*RSM US LLP*

West Palm Beach, Florida  
April 1, 2016

Healthy Palm Beaches, Inc.  
(A Component Unit of the Health Care District of Palm Beach County, Florida)

Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus  
December 31, 2015 and 2014

	2015	2014
<b>Admitted Assets</b>		
Cash, cash equivalents and short-term investments	\$ 12,985,701	\$ 16,673,381
Due from other governments	-	7,933,507
Amounts due from parent, subsidiaries, and affiliates	27,106	-
Investment income due and accrued	22,011	16,393
	<hr/>	<hr/>
<b>Total admitted assets</b>	<b>\$ 13,034,818</b>	<b>\$ 24,623,281</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities and Capital and Surplus</b>		
Liabilities:		
Claims unpaid	\$ 1,061,079	\$ 1,847,178
Aggregate health policy reserves	-	1,170,275
Premiums received in advance	-	1,260,812
General expenses due or accrued	90,589	74,000
Amounts withheld or retained for the account of others	16,017	17,338
Amounts due to parent, subsidiaries, and affiliates	-	3,706,927
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>1,167,685</b>	<b>8,076,530</b>
	<hr/>	<hr/>
Capital and surplus:		
Gross paid-in and contributed surplus	1,500,000	3,000,000
Unassigned funds	10,367,133	13,546,751
	<hr/>	<hr/>
<b>Total capital and surplus</b>	<b>11,867,133</b>	<b>16,546,751</b>
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<b>Total liabilities and capital and surplus</b>	<b>\$ 13,034,818</b>	<b>\$ 24,623,281</b>
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See notes to statutory financial statements.

**Healthy Palm Beaches, Inc.**  
**(A Component Unit of the Health Care District of Palm Beach County, Florida)**

**Statutory Statements of Revenues, Expenses and Changes in Capital and Surplus**  
**Years Ended December 31, 2015 and 2014**

	2015	2014
Operating revenues:		
Net premium income	\$ 7,397,432	\$ 31,857,271
Subsidy from Health Care District	1,800,000	9,200,000
Miscellaneous income	35,552	51,428
<b>Total operating revenues</b>	<b>9,232,984</b>	<b>41,108,699</b>
Operating expenses:		
Hospital/medical benefits	5,445,540	20,313,830
Other professional services	1,422,219	5,548,374
Outside referrals	275,067	1,314,018
Emergency room and out-of-area	438,119	2,628,225
Prescription drugs	443,887	3,388,320
<b>Total hospital and medical</b>	<b>8,024,832</b>	<b>33,192,767</b>
Claims adjustment expenses	636,435	1,765,784
General administrative expenses	1,482,801	2,465,827
Decrease in reserves for life and accident and health contracts	(1,170,275)	(1,153,725)
<b>Total underwriting deductions</b>	<b>8,973,793</b>	<b>36,270,653</b>
<b>Net underwriting gain</b>	<b>259,191</b>	<b>4,838,046</b>
Net investment income earned	62,568	76,415
Gain on sale of Medicaid HMO	-	6,803,296
<b>Net income</b>	<b>\$ 321,759</b>	<b>\$ 11,717,757</b>
Capital and surplus, prior year	\$ 16,546,751	\$ 14,326,414
Net income	321,759	11,717,757
Distribution to Health Care District	(5,000,000)	(9,500,000)
Change in nonadmitted assets	(1,377)	2,580
<b>Capital and surplus, end of year</b>	<b>\$ 11,867,133</b>	<b>\$ 16,546,751</b>

See notes to statutory financial statements.

**Healthy Palm Beaches, Inc.**  
**(A Component Unit of the Health Care District of Palm Beach County, Florida)**

**Statutory Statements of Cash Flows**  
**Years Ended December 31, 2015 and 2014**

	2015	2014
Cash from operations:		
Premiums collected	\$ 12,899,852	\$ 22,333,136
Net investment income	56,950	73,693
Subsidy from Health Care District	1,800,000	9,200,000
Miscellaneous income	35,552	51,428
<b>Total</b>	<b>14,792,354</b>	<b>31,658,257</b>
Less:		
Benefits and loss-related payments	7,625,242	34,132,864
Commissions, expenses paid and aggregate write-ins for deductions	5,853,410	1,282,576
<b>Total</b>	<b>13,478,652</b>	<b>35,415,440</b>
<b>Net cash provided by (used in) operations</b>	<b>1,313,702</b>	<b>(3,757,183)</b>
Cash from financing and other miscellaneous sources:		
Net proceeds from sale of Medicaid HMO	-	6,803,296
Distribution to Health Care District	(5,000,000)	(9,500,000)
Other cash provided (used)	(1,382)	10,856
<b>Net cash used in financing and miscellaneous sources</b>	<b>(5,001,382)</b>	<b>(2,685,848)</b>
<b>Net decrease in cash, cash equivalents and short-term investments</b>	<b>(3,687,680)</b>	<b>(6,443,031)</b>
Cash, cash equivalents and short-term investments, beginning of year	16,673,381	23,116,412
Cash, cash equivalents and short-term investments, end of year	<b>\$ 12,985,701</b>	<b>\$ 16,673,381</b>

See notes to statutory financial statements.

**Healthy Palm Beaches, Inc.  
(A Component Unit of the Health Care District of Palm Beach County, Florida)**

**Notes to the Statutory Financial Statements**

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**Note 1. Description of Organization and Summary of Significant Accounting Policies**

**Organization:** Healthy Palm Beaches, Inc. (HPB) is a governmental organization that was incorporated under the laws of the State of Florida on July 8, 1994. HPB received a Certificate of Authority to operate a Health Maintenance Organization in the State of Florida, pursuant to Chapter 641, Part I, Florida Statutes, on November 21, 1996. A Health Care Provider Certificate was issued to HPB by the Florida Agency for Health Care Administration (AHCA) on October 29, 1996. HPB has received accreditation from the Accreditation Association for Ambulatory Health Care, Inc. through January 2015. On December 10, 1997, HPB executed a contract with AHCA to provide health care services to Medicaid recipients beginning January 1, 1998. The contract was an assignment of the Palm Beach County Health Department's Personal Health Plan (PHP) with approximately 2,500 enrollees. HPB sold the PHP operations to Molina HealthCare of Florida, Inc. effective August 1, 2014.

HPB was created by and is a blended component unit of the Health Care District of Palm Beach County (the District), as HPB is governed by a board consisting of all of the members of the District's Board of Commissioners. The District is a political subdivision of the State of Florida created to provide health care for medically needy residents as well as comprehensive planning, funding, and coordination of general health and trauma services delivered in Palm Beach County.

HPB offered Vita Health, a shared premium program launched in June 2006. Vita Health offered members health care benefits that included hospitalization, emergency room services, outpatient surgery, diagnostic services, primary care services, and prescription drugs. Vita Health ended new enrollment in October 2013 to coincide with the implementation of the Affordable Care Act. Vita Health ended coverage to its members on December 31, 2015. Throughout 2015, the District helped remaining Vita Health members apply for coverage through the Health Insurance Marketplace.

**Accounting practices:** The accompanying statutory financial statements of Healthy Palm Beaches, Inc. (HPB) are prepared in conformity with accounting practices prescribed or permitted by the Florida Office of Insurance Regulation (OIR), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). OIR recognizes only statutory accounting practices for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under state law. The National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures Manual (NAIC SAP) has been adopted by the State of Florida as a component of its prescribed or permitted practices. There are no practices employed by HPB that depart from statutory accounting practices and NAIC SAP, nor were any transactions recorded that are not addressed by statutory accounting practices. Policies and disclosures that are not applicable to HPB are not included in these statutory financial statements. There were no differences in HPB's net income and capital and surplus between NAIC SAP and practices prescribed and permitted by OIR as of and for the years ended December 31, 2015 and 2014.

**Accounting standards:** When they are not in conflict with the statutory accounting standards previously described, HPB has elected to apply the provisions of all relevant pronouncements of the Governmental Accounting Standards Board (GASB).

**Healthy Palm Beaches, Inc.**  
**(A Component Unit of the Health Care District of Palm Beach County, Florida)**

**Notes to the Statutory Financial Statements**

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**Note 1. Description of Organization and Summary of Significant Accounting Policies**  
**(Continued)**

The principal difference between HPB's statements as presented and those prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by GASB relates to the treatment of assets. As described in Statement of Statutory Accounting Principles No. 4, Assets and Nonadmitted Assets, assets that do not represent resources that can be used to pay claims are generally deemed nonadmitted under the statutory basis of accounting and are not recognized in the statements of admitted assets, liabilities, and capital and surplus. The effect of this difference on the financial statements was to reduce assets by \$5,217 and \$3,840 at December 31, 2015 and 2014, respectively, representing prepaid expenses. Also, the statutory financial statements are not prepared in the format required by GAAP, including cash, cash equivalents and short-term investments in the statutory statements of cash flows represent cash balances and investments with maturities of one year or less when purchased and no presentation of a reconciliation of net income to cash flows from operating activities.

**Risks and uncertainties:** Certain risks and uncertainties are inherent to HPB's day-to-day operations and to the process of preparing its statutory financial statements. The more significant of those risks and uncertainties are presented below and throughout the notes to the statutory financial statements.

**Management estimates:** The preparation of financial statements in conformity with Statutory Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period, as well as amounts disclosed in the notes to the statutory financial statements. Actual results could differ from those estimates.

**Risk-based capital:** The NAIC has developed risk-based capital (RBC) standards that relate an insurer's reported statutory capital and surplus to the risks inherent in its overall operations. The RBC formula uses the statutory annual statement to calculate the minimum indicated capital level to protect HPB from the various risks that it faces. The NAIC model law calls for various levels of regulatory action based on the magnitude of an indicated RBC capital deficiency, if any. HPB continues to monitor its internal capital requirements and the NAIC's RBC requirements. HPB has determined that its capital levels are in excess of the minimum capital requirements for all RBC action levels. Management believes that HPB's capital levels are sufficient to support the level of risk inherent in its operations.

**Legal/regulatory risk:** Legal/regulatory risk is the risk that changes in the legal or regulatory environment in which an insurer operates will occur and create additional costs or expenses not anticipated by the insurer in pricing its products. That is, regulatory initiatives designed to reduce insurer profits or new legal theories may create costs for the insurer beyond those currently recorded in the statutory financial statements.

**Healthy Palm Beaches, Inc.**  
**(A Component Unit of the Health Care District of Palm Beach County, Florida)**

**Notes to the Statutory Financial Statements**

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**Note 1. Description of Organization and Summary of Significant Accounting Policies**  
**(Continued)**

**Cash, cash equivalents and short-term investments:** HPB considers demand deposits, money market accounts, and highly liquid investments with an original maturity of three months or less to be cash and cash equivalents. Short-term investments include investments with an original maturity of greater than three months and less than one year. At December 31, 2015 and 2014, the amounts consisted entirely of demand deposits and amounts held by the state, and HPB held no cash equivalents or short-term investments. At December 31, 2015 and 2014, HPB's bank balances of deposits with financial institutions were entirely covered by federal depository insurance and by a collateral pool pledged to the State Treasurer of Florida by financial institutions which comply with the requirements of Florida Statutes and have been designated as Qualified Public Depositories by the State Treasurer of Florida. Qualified Public Depositories are required to pledge collateral to the State Treasurer with a fair value equal to a percentage of the average daily balance of all government deposits in excess of any federal deposit insurance. In the event of a default by a Qualified Public Depository, all claims for government deposits would be satisfied by the State Treasurer from the proceeds of federal deposit insurance, pledged collateral of the public depository in default and, if necessary, a pro rata assessment to the other Qualified Public Depositories participating in the collateral pool. Accordingly, all deposits with financial institutions are considered fully insured.

**Premium income:** Health premiums are earned ratably over the terms of the related insurance policies. Amounts received in advance of the coverage period are reported as premiums received in advance. All policies expired as of December 31, 2015. Expenses incurred in connection with acquiring new insurance business are charged to operations as incurred.

HPB received a Low Income Pool (LIP) funding from the State of Florida to subsidize premiums associated with Vita Health. These LIP revenues are reported within net premium income on the statutory statements of revenues, expenses and changes in capital and surplus and were approximately \$1.3 million and \$3.8 million for the years ended December 31, 2015 and 2014, respectively. Effective June 30, 2015, the LIP funding ended.

**Liabilities for losses and loss/claim adjustment expense:** The recorded liabilities for unpaid claims and claims adjustment expenses consisted of estimates of incurred claims, both reported and unreported. The recorded liabilities were based on assumptions and estimates and, while HPB believes the recorded amount to be adequate, actual losses when known may be greater or less than the amount provided. Incurred but Not Reported (IBNR) liabilities were determined in accordance with the Actuarial Standard of Practice No. 5, *Incurred Health Claim Liabilities*, as established by the American Academy of Actuaries.

**Premium deficiency reserves:** HPB evaluates its health care contracts to determine if it is probable that a loss will be incurred. A premium deficiency reserve is recognized when it is probable that expected future claims, including claims adjustments expense, will exceed existing reserves plus anticipated future premiums and reinsurance recoveries on existing contracts. For purposes of determining a premium deficiency reserve, contracts are grouped in a manner consistent with HPB's method of acquiring, servicing and measuring the profitability of such contracts. Anticipated investment income was not considered in calculating this reserve. As of December 31, 2015 and 2014, HPB had a liability of \$0 and \$1,170,275, respectively, related to premium deficiency reserves.

**Subsidy from the Health Care District:** The District provides funding to HPB on an annual basis to subsidize both losses and the premiums charged to members of the Vita Health and PHP plans.

**Healthy Palm Beaches, Inc.**  
**(A Component Unit of the Health Care District of Palm Beach County, Florida)**

**Notes to the Statutory Financial Statements**

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**Note 1. Description of Organization and Summary of Significant Accounting Policies**  
**(Continued)**

**Distribution to Health Care District:** The amount of distributions, if any, to be paid to the Health Care District of Palm Beach County, Florida, is determined annually by the Board of Directors of HPB. The amount of the distributions represents a return of capital to the District, while also including judgment as to the appropriate level of statutory surplus to be retained by HPB (see Note 4).

**Employment and post-employment related costs:** No accruals are made by HPB for employment and postemployment costs, because HPB has no employees. All labor-related costs are allocated to HPB by the District (see Note 4) and reimbursed to the District under a management agreement.

**Insurance:** HPB carries general and managed care professional liability insurance insuring HPB against any liability for claims for professional injury and wrongful acts committed in the managed care business operations up to \$3,000,000 per occurrence. HPB's malpractice insurance is maintained on a claims made basis. Individual physicians are required by provider agreements with HPB to obtain tail coverage upon separation of their services with HPB. Accordingly, no IBNR for malpractice liability is included in the accompanying statutory financial statements. There were no significant reductions in insurance coverage or settlements that exceeded insurance coverage for any of the prior three years.

**Income taxes:** HPB was created by and is controlled by the District. It is exempt from federal and state income taxes as a governmental entity and is not required under the Internal Revenue Code to file tax returns.

**Subsequent events:** All of the effects of subsequent events that provide additional evidence about conditions that existed at the statutory statement of admitted assets, liabilities, and capital and surplus date, including the estimates inherent in the process of preparing the statutory financial statements, are recognized in the statutory financial statements. HPB does not recognize subsequent events that provide evidence about conditions that did not exist at the statutory statement of admitted assets, liabilities, and capital and surplus date but arose after, but before the statutory financial statements are available to be issued. In some cases, subsequent events are disclosed to keep the statutory financial statements from being misleading.

HPB has evaluated subsequent events through April 1, 2016, the date these statutory financial statements were available to be issued.

**Note 2. Cash, Cash Equivalents and Short-Term Investments**

HPB's cash and cash equivalents were as follows at December 31, 2015 and 2014:

	2015		2014	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Deposits with financial institutions	\$ 12,271,123	\$ 12,420,374	\$ 15,961,215	\$ 16,170,310
Restricted deposits with State of Florida agencies and financial institutions	714,578	714,578	712,166	712,166
	<u>\$ 12,985,701</u>	<u>\$ 13,134,952</u>	<u>\$ 16,673,381</u>	<u>\$ 16,882,476</u>

**Healthy Palm Beaches, Inc.**  
**(A Component Unit of the Health Care District of Palm Beach County, Florida)**

**Notes to the Statutory Financial Statements**

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**Note 2. Cash, Cash Equivalents and Short-Term Investments (Continued)**

HPB monitors the following investment risks:

**Interest rate risk:** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the term to maturity, the greater the exposure to interest rate risk. HPB had no investments subject to interest rate risk.

**Credit risk:** Credit risk is the risk that an issuer will not fulfill its obligations. HPB has historically minimized its credit risk by limiting allowable investments to deposits with a financial institution meeting the requirements of a Florida qualified public depository.

**Custodial credit risk:** Custodial credit risk is defined as the risk that HPB may not be able to recover cash and investments held by another party in the event of a financial failure. At December 31, 2015 and 2014, HPB's deposits were entirely covered by federal depository insurance and a collateral pool pledged to the State Treasurer of Florida by financial institutions that comply with the requirements of Florida Statutes and have been designated as a qualified public depository by the State Treasurer, except for restricted deposits with State of Florida agencies.

**Note 3. Restricted Assets**

HPB has \$714,578 and \$712,166 of restricted deposits held with the State of Florida agencies and financial institutions as of December 31, 2015 and 2014, respectively. The other restricted assets are held as part of deposits at financial institutions. These assets are restricted to maintain the statutory reserve required by the State of Florida as described in Note 6. Restricted assets as of December 31, 2015 and 2014, are as follows:

Restricted Asset Category	Total Gross Restricted From Current Year	Total Gross Restricted From Prior Year	Increase/ (Decrease) (1 minus 2)	Total Current Year Admitted Restricted	Percentage Gross Restricted to Total Assets	Percentage Admitted Restricted to Total Admitted Assets
j) On deposit with states	\$ 714,578	\$ 712,166	\$ 2,389	\$ 714,578	5.5%	5.5%
n) Other restricted assets	785,422	-	785,422	785,422	6.0%	6.0%
<b>o) Total restricted assets</b>	<b>\$ 1,500,000</b>	<b>\$ 712,166</b>	<b>\$ 787,811</b>	<b>\$ 1,500,000</b>	<b>11.5%</b>	<b>11.5%</b>

**Note 4. Transactions With Parent, Subsidiaries, Affiliates and Other Related Parties**

**Guarantees or undertakings:** On October 22, 1997, HPB entered into a Guarantee Agreement with the District. This agreement affirms the District's financial support of HPB up to an annual maximum of \$5,000,000 to assure that neither enrolled Medicaid recipients nor AHCA will be liable for the debts or financial obligations of HPB. During January 2010, HPB entered into a similar Guarantee Agreement with the District to include the debts or financial obligations of Vita Health.

**Healthy Palm Beaches, Inc.**  
**(A Component Unit of the Health Care District of Palm Beach County, Florida)**

**Notes to the Statutory Financial Statements**

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**Note 4. Transactions With Parent, Subsidiaries, Affiliates and Other Related Parties**  
**(Continued)**

**Subsidy and distributions:** Financial support received from the District amounted to \$1,800,000 for the year ended December 31, 2015 and \$9,200,000 for the year ended December 31, 2014. This represents the subsidy from the District to fund any losses generated by HPB.

During the years ended December 31, 2015 and 2014, HPB made cash distributions of \$5,000,000 and \$9,500,000 to the District, respectively, representing capital and surplus in excess of amounts required. For 2014 this included net proceeds from the sale of the PHP operations to Molina HealthCare of Florida, Inc. of approximately \$6,800,000 and additional cash balances identified for return of capital to the District.

**Management or service contracts:** On October 22, 1997, HPB entered into an Administrative Services/Employee Lease Agreement with the District. This agreement provides for the District to perform certain administrative, consulting, and other support services for HPB, as well as provide personnel for HPB's operations. HPB itself has no employees. Effective October 1, 2014, the District allocated certain support department costs to HPB via an overhead allocation model, which resulted in charges under this agreement of \$683,809 and \$133,014 for the years ended December 31, 2015 and 2014, respectively.

**Amounts due from or to related parties:** At December 31, 2015, the District owed HPB \$27,106. At December 31, 2014, HPB owed the District \$3,706,927.

**Note 5. Claims Unpaid and Change in Incurred Claims and Claim Adjustment Expenses**

The claims unpaid liability as of December 31, 2015 and 2014, amounted to \$1,061,079 and \$1,847,178, respectively. During the years ended December 31, 2015 and 2014, changes recorded to claims unpaid were as follows:

	2015	2014
Beginning liability	\$ 1,847,178	\$ 3,941,000
Paid claims	(8,810,931)	(35,286,589)
Incurred losses	8,024,832	33,192,767
Ending liability	<u>\$ 1,061,079</u>	<u>\$ 1,847,178</u>

Amounts reported in the table above for 2015 paid claims are net of the decrease of \$1,170,275 in aggregate health policy reserves from 2014 and \$15,414 in accrued loss adjustment expenses. Amounts reported in the table above for 2014 paid claims are net of the decrease of \$1,153,275 in aggregate health policy reserves from 2013.

During the year ended December 31, 2015, \$1,292,600 was paid for claims incurred in prior years. There was \$87,596 in remaining liability for prior year claims at December 31, 2015, resulting in a \$466,982 favorable development during 2015. During the year ended December 31, 2014, \$4,275,882 was paid for claims incurred in prior years. There was no remaining liability for prior year claims at December 31, 2014, resulting in a \$334,882 unfavorable development. These developments are the result of additional information on individual claims acquired from the subsequent years' claims payment experience. All claims adjustment expenses and any related liability were deemed to be associated with current year claims.

**Healthy Palm Beaches, Inc.**  
**(A Component Unit of the Health Care District of Palm Beach County, Florida)**

**Notes to the Statutory Financial Statements**

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**Note 6. Minimum Net Worth**

Pursuant to Section 641.225, Florida Statutes, HPB is required to maintain in the form of cash and cash equivalents a statutory reserve based on the greater of: (1) \$1,500,000, (2) 10 percent of total liabilities, or (3) 2 percent of annual premiums.

The statutory reserve as a percentage of total liabilities and premiums is calculated as follows:

	2015	2014
Total liabilities	\$ 1,167,685	\$ 8,076,530
Statutory percentage	10%	10%
Reserve on percentage of total liabilities	\$ 116,769	\$ 807,653
Premiums	\$ 7,397,432	\$ 31,857,271
Statutory percentage	2%	2%
Reserve on percentage of premiums	\$ 147,949	\$ 637,145

At December 31, 2015 and 2014, a contributed surplus of \$1,500,000 and \$3,000,000, respectively, was assigned.

**Note 7. Discontinued Operations**

HPB entered into an agreement dated March 12, 2014 to sell its PHP operations to Molina HealthCare of Florida, Inc. for \$7,500,000 in cash, subject to various closing adjustments. The net gain on disposal was \$6,803,296. The sale was closed on August 1, 2014. The sale was subject to state regulatory approval and other customary conditions. The amount of 2014 premium revenue and claims and other expenses associated with the sold business were \$18,272,290 and \$17,993,299, respectively. The claims and other expenses incurred in 2015 associated with the sold business were approximately \$47,000.

**Note 8. Commitments and Contingencies**

**Legal:** In the ordinary course of operations, HPB is subject to litigation and other dispute resolution processes regarding health benefits provided to its subscribers, contracts with providers, contracts with service providers, and other matters that arise in the context of its business. Although the outcome of these matters cannot be determined, it is management's opinion that adequate provision has been made for losses that may result from these actions; accordingly, the outcome of these proceedings will not have a material effect on HPB's financial position or results of operations.